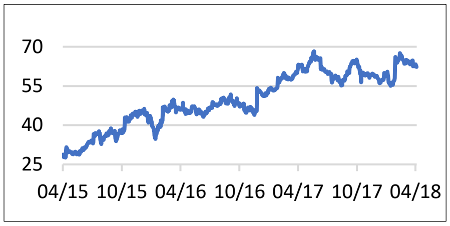
In millions of CAD
1 CAD = 0.78 USD

Target Price		**113.7**
Annual Return (over RFR)		***12.4%***
Time Horizon		**5 years**
Price as of 05/01/18		63.24
52-Week High	12.8%	71.3
52-Week Low	-16.2%	53.0
Float (% Shares Outstd.)		87.2%
Short Interest (% of Float)		1.0%
3-Month Avg Daily Trd Vol		240,025
x Current Price (mm)		15.2



Market Cap	**11,275**	**86%**
+ Debt	2,331	18%
- Cash & ST Invst	(559)	-4%
+ Pref & Min Intr	-	0%
Enterprise Value	**13,048**	**100%**

Financials	**2015**	**2016**	**2017**	**2018P**	**2019P**	**2020P**
Revenue	3,039	3,975	4,756	5,163	5,657	6,252
YoY Change	*17.5%*	*30.8%*	*19.6%*	*8.6%*	*9.6%*	*10.5%*
Gross Margin	28.3%	29.4%	30.2%	30.5%	30.8%	31.0%
Operating Margin	14.6%	14.0%	14.4%	15.7%	16.0%	16.0%
Net Profit Margin	9.7%	8.7%	10.0%	10.8%	11.1%	11.2%
FCF Margin	10.1%	9.7%	10.2%	11.6%	11.8%	11.8%
P / E	26.4	26.7	21.5	-	-	-
EV / EBITDA	13.1	13.6	12.8	-	-	-
Debt / EBITDA	1.7	2.1	2.5	-	-	-

CCL Industries (TSX:CCL.B) is the largest label company in the world, focused on solutions for the consumer market. CCL has a CAD $11.3 bn market cap and $4.8 bn revenue. The company is headquartered in Toronto, Ontario and dates back to 1951. CCL has grown at a rate of 29.4% p.a. over the last 5 years, primarily as a result of continuous strategic acquisitions. Geographically, North America drives ~43% of sales, Europe 34%, and Emerging Markets 23%. The company has emerged as the consolidated player in a large and highly fragmented industry that directly benefits from the increased importance of product data and the growth in consumer spending.

A long position in CCL.B is expected to provide ~12.4% annual excess returns over a risk-free rate of 6.0% during the given holding period of 5 years. This estimate is based on 5 years financial projections and an exit multiple in line with the recent market valuation for the company. *– see Valuation (page 8)*

Investment Thesis

1) CCL is uniquely positioned as the largest label manufacturer in a fragmented industry. Due to its scale, CCL has a breadth and depth of offering beyond that of any single competitor and can leverage its resources to invest in innovation and invoke pricing power with both suppliers and customers. Meanwhile, it effectively competes in local markets due to its continuous bolt-on acquisitions aimed at attaining access to a unique technology or customer base. As a result, CCL enjoys competitive advantages unmatched by its competition. *– see Industry and Comp. Adv. (p. 2)*

2) CCL stock is a lower-risk alternative to direct investing in consumer brands, due to its exposure to different markets in the space, wide scope of premium brand clients, geographic diversification, and favorable business prospects. Growing consumer spending and global premiumization could boost CCL's mid- to long-term returns in a way that would be best replicated through an entire portfolio of stocks. *– see Business Diversification (p. 5)*

3) CCL's current valuation reflects the integration risk and financial leverage, resulting from last year's completion of its largest acquisition. CCL has already integrated several large purchases, suggesting that the latest acquisition provides an opportunity to invest in the company before all synergies have been realized. Furthermore, given the historically sound capital allocation of the management team, as well as their explicit commitment to managing debt, the increased leverage would amplify the expected positive performance. *– see Fin. Lev. and Capital Alloc. (p. 6, 7)*

Industry Trends

- Importance of labels is increasing as a result of **evolving customer requirements**
- **New regulation** requires companies to meet higher standards for labeling
- Labels are becoming **more dynamic and data driven**, expanding beyond the limited information that can be stored in a barcode
- Labels are increasingly used to **track products through the supply cycle**, extending the use of same labeling both upstream and downstream
- **Smart labels** are emerging as a cheaper alternative to silicon sensors, providing real time information about location, temperature, moisture, authenticity, etc. at the item level

Given the increasing importance of labeling, CCL's business is facing strengthening demand. With its acquisitive strategy and diverse offering, the company is well positioned to innovate and adjust in accordance with the market. Furthermore, due to its global presence, CCL is able to offer solutions to companies that are trying to optimize operations at various stages of their supply chain.

Competitive Advantages

Economies of scale and scope

- The labeling industry is **highly fragmented**, with no major competitor having the product breadth, global reach and scale of CCL
- Due to the high **initial capital cost** and specialized expertise, companies are generally not interested in producing specialty labels in-house. This hurdle rate also discourages new market entrants

As the largest label maker in a large and highly fragmented industry, CCL leverages economies of scale and scope which are not available to its competitors. It is able to amortize the high up-front cost of operating a labeling business, which acts as a barrier to entry for the business.

Pricing power

- The label industry is dependent on **commodity suppliers**, which are sensitive to orders at scale
- **Customers** that need to respond to rapidly evolving label requirements are more willing to bear cost increases, knowing that the solution will efficiently address their latest needs

CCL's scale also allows for pricing power with both suppliers and customers. Due to its scale, CCL has negotiating leverage with commodity suppliers, reflected in both the price and the long term duration of its contracts. Furthermore, it can also pass on cost increases to its customers, which need a reliable partner in the dynamic packaging process.

Local market dominance

- Competition largely comes from single-plant businesses that compete in **local markets**
- Labeling a **manufacturing business with an embedded service component**. For companies with multiple product lines, the ability to work with a single label and packaging partner across categories is an advantage

The roll-up acquisition strategy that CCL has been implementing allows it to act locally on a global level. It purchases small businesses that provide unique exposure to the local market. Consequently, each segment of CCL is a leader in market share or has a significant position in the markets it serves in each of its operating locales. Moreover, the breadth and depth of its offering allows CCL to offer a higher level of service, accelerating its expected sales growth.

Business Segments Overview

Assumption

Segment (CAD, mm)	Dec '13	Dec '14	Dec '15	Dec '16	Dec '17	Dec '18P	Dec '19P	Dec '20P	Dec '21P	Dec '22P
Sales	**1,889**	**2,586**	**3,039**	**3,975**	**4,756**	**5,163**	**5,657**	**6,252**	**6,951**	**7,766**
CCL	1,344	1,718	2,030	2,498	2,823	3,218	3,677	4,210	4,831	5,556
Avery	356	666	783	788	753	753	768	799	839	881
Checkpoint	-	-	-	459	675	668	672	685	706	734
Container	190	201	226	230	196	196	194	190	187	183
Innovia	-	-	-	-	308	327	346	367	389	412
% Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
CCL	71.1%	66.5%	66.8%	62.8%	59.4%	62.3%	65.0%	67.3%	69.5%	71.5%
Avery	18.8%	25.8%	25.8%	19.8%	15.8%	14.6%	13.6%	12.8%	12.1%	11.3%
Checkpoint	-	-	-	11.5%	14.2%	12.9%	11.9%	11.0%	10.2%	9.5%
Container	10.0%	7.8%	7.4%	5.8%	4.1%	3.8%	3.4%	3.0%	2.7%	2.4%
Innovia	-	-	-	-	6.5%	6.3%	6.1%	5.9%	5.6%	5.3%
Sales Growth - Organic	**5.3%**	**3.8%**	**4.5%**	**4.0%**	**2.1%**	**3.4%**	**4.1%**	**4.7%**	**5.3%**	**5.6%**
CCL	5.9%	6.5%	5.7%	7.1%	6.2%	6.0%	6.3%	6.5%	6.8%	7.0%
Avery	-	-	0.9%	-4.1%	-4.6%	-2.0%	-	2.0%	3.0%	3.0%
Checkpoint	-	-	-	-	-	-2.0%	-1.0%	-	1.0%	2.0%
Container	2.9%	1.9%	6.2%	3.4%	-12.9%	-	-1.0%	-2.0%	-2.0%	-2.0%
Innovia	-	-	-	-	-	3.0%	3.0%	3.0%	3.0%	3.0%
Sales Growth - Acquisitions	**0.5%**	**27.2%**	**5.7%**	**25.5%**	**19.1%**	**5.6%**	**5.8%**	**6.0%**	**6.2%**	**6.3%**
CCL	0.6%	15.3%	6.2%	14.7%	8.3%	8.0%	8.0%	8.0%	8.0%	8.0%
Avery	100.0%	0.5%	6.2%	2.2%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
Checkpoint	-	-	-	100.0%	-	1.0%	1.5%	2.0%	2.0%	2.0%
Container	-	-	-	-	-	-	-	-	-	-
Innovia	-	-	-	-	100.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Sales Growth - Currency	**3.0%**	**5.8%**	**7.3%**	**1.3%**	**-1.6%**	**-**	**-**	**-**	**-**	**-**
CCL	12.4%	6.0%	6.3%	1.1%	-1.5%	-	-	-	-	-
Avery	-	6.4%	10.4%	2.5%	-1.7%	-	-	-	-	-
Checkpoint	-	-	-	-	-	-	-	-	-	-
Container	2.9%	4.0%	6.3%	-1.5%	-1.9%	-	-	-	-	-
Innovia	-	-	-	-	-	-	-	-	-	-
Operating Margin	**11.6%**	**13.0%**	**14.6%**	**14.0%**	**14.4%**	**15.7%**	**16.0%**	**16.0%**	**16.1%**	**16.1%**
CCL	14.5%	14.1%	15.6%	15.1%	15.8%	16.0%	16.2%	16.2%	16.2%	16.2%
Avery	11.4%	16.4%	19.5%	21.2%	21.8%	22.0%	22.2%	22.2%	22.4%	22.4%
Checkpoint	0%	0%	0%	6.1%	12.9%	13.2%	13.4%	13.4%	13.4%	13.4%
Container	8.7%	8.9%	11.8%	13.2%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%
Innovia	-	-	-	-	4.7%	5.5%	7.0%	7.0%	7.0%	7.0%

CCL (~60% of sales)

- The CCL segment is the **largest consolidated label manufacturer** in most of its global market sectors
  - Produces labels from polyolefin films and paper
  - Coats and laminates pressure sensitive materials
- Includes the CCL Label, CCL Design and CCL Secure businesses
  - **CCL Label** supplies specialized label and tube solutions to home & personal care, food & beverage, and healthcare & specialty companies
  - **CCL Design** supplies high performance labels to automotive, electronics and durable goods companies
  - **CCL Secure** supplies polymer bank note substrate, pressure sensitive stamps, passports and other security documents to government institutions
- Given the label industry dynamics and CCL's positioning, organic **sales growth** is projected to accelerate over the next five years. Sales growth from acquisitions is projected slightly below the average of the last 5 years
- CCL intends to focus its expansion in the developed markets on innovative and high growth product lines, while relying on the increased economic growth expected in the developing markets. Consequently, **operating margin** is projected to further increase at a modest pace

Avery (~15% of sales)

- Avery is the market leader for **software solutions in the labeling space** for small business and consumers in North America, Europe and Australia
- Acquisition of the business was completed in **July 2013**
- Principal **competition** comes from lower-priced private label products
- Provides the **highest return on total capital** of CCL's reporting segments due to lower capital requirements
- **Organic growth has declined** ~4% p.a. over the last two years due to:
    - Secular decline in its core mailing address label product, which is being replaced by online communication. In response, Avery has developed new products leveraging newly acquired printable media e-commerce platforms
    - Office superstore closures in North America in 2016 impacted the distribution of products. Transitioning more of the offering online is expected to counteract this development
- **Sales growth** is expected to resume when the new e-commerce offering outpaces the legacy product lines. Growth from acquisitions is projected to stay nominal, only supporting the new product line on the margin
- **Operating margin** has continued increasing despite the difficult market environment. It is projected to stabilize at a slightly higher level, reflecting the attractive economics of an online business

Checkpoint (~15% of sales)

- Leading manufacturer of technology-driven, loss-prevention and inventory management labeling solutions to the **retail apparel industry**
- The pioneer of radio-frequency identification ("RFID") and **electronic article surveillance** solutions. Checkpoint's comprehensive inventory tracking offering could become a key business driver, as retailers explore omni-channel fulfillment systems
- Acquisition of the business was completed in **May 2016**
- **Sales growth** is expected to initially suffer due to the evolving 'brick and mortar' retail landscape and remain depressed even towards the end of the holding period. Some growth from acquisitions is projected, reflecting the potential of adding on to the highly recognizable brand
- **Operating margin** is projected to increase as synergies from the acquisition are fully realized

Container (~5% of sales)

- Leading manufacturer of **recyclable aluminum aerosol cans** for the personal care, home care and beverage markets in North America, including Mexico
- Two direct competitors in the United States and one in Mexico. CCL estimates it is about the same size as its key competitor in the United States and has **~ 50% market share**
- CCL is **scaling back** this business and closed operations at its Canadian plant in mid-2017. Organic sales growth is projected to decline, along with no growth from acquisitions over the next five years
- **Operating margin** is projected to remain stable

Innovia (~5% of sales)

- Leading manufacturer of high performance, multi-layer, surface engineered **specialty films** for label, packaging and security applications
- Strategic focus for the segment is **film innovation**, leading to the development of unique process technology
- Acquisition of the business was completed **February 2017**
- **Sales** are projected to moderately grow organically, as well as from acquisitions
- **Operating margin** is projected to increase as a result of expected synergies and improved efficiency stemming from innovation

Business Diversification

End market diversification

CCL's clients operate in markets that run the gamut of consumer-facing products: home care, personal care, food & beverage, healthcare, apparel, specialty, automotive, electronics, durable goods, as well as government entities, small businesses, and homes.

Due to its production capabilities and name recognition, CCL is a standard choice for blue-chip companies looking for labeling solutions. Furthermore, due to its local expertise, it also provides services to numerous smaller players, with over 60% of its revenue coming from several thousand customer accounts.

Segment (CAD, mm)	Dec '13	Dec '14	Dec '15	Dec '16	Dec '17
Sales	**1,889**	**2,586**	**3,039**	**3,975**	**4,756**
North America	985	1,441	1,744	2,024	2,036
Canada	*138*	*175*	*177*	*195*	*160*
United States and Puerto Rico	*846*	*1,266*	*1,567*	*1,829*	*1,877*
Europe	550	727	810	1,122	1,598
Emerging Markets	355	417	486	829	1,122
Mexico, Brazil, Chile and Argentina	*174*	*194*	*220*	*262*	*294*
Asia, Australia, Africa and New Zealand	*181*	*223*	*266*	*567*	*828*
% Sales	**100%**	**100%**	**100%**	**100%**	**100%**
North America	52.1%	55.7%	57.4%	50.9%	42.8%
Canada	*7.3%*	*6.8%*	*5.8%*	*4.9%*	*3.4%*
United States and Puerto Rico	*44.8%*	*49.0%*	*51.6%*	*46.0%*	*39.5%*
Europe	29.1%	28.1%	26.6%	28.2%	33.6%
Emerging Markets	18.8%	16.1%	16.0%	20.9%	23.6%
Mexico, Brazil, Chile and Argentina	*9.2%*	*7.5%*	*7.2%*	*6.6%*	*6.2%*
Asia, Australia, Africa and New Zealand	*9.6%*	*8.6%*	*8.7%*	*14.3%*	*17.4%*
Sales Growth	**44%**	**37%**	**18%**	**31%**	**20%**
North America	62.3%	46.4%	21.0%	16.1%	0.6%
Canada	*11.6%*	*26.7%*	*0.9%*	*10.3%*	*-18.0%*
United States and Puerto Rico	*75.3%*	*49.6%*	*23.8%*	*16.7%*	*2.6%*
Europe	30.4%	32.3%	11.3%	38.6%	42.4%
Emerging Markets	26.7%	17.4%	16.5%	70.6%	35.3%
Mexico, Brazil, Chile and Argentina	*20.4%*	*11.4%*	*13.5%*	*18.9%*	*12.1%*
Asia, Australia, Africa and New Zealand	*33.5%*	*23.2%*	*19.1%*	*113.3%*	*46.0%*

Geographic diversification

In 2017, CCL derived 43% of its sales from North America, 34% from Europe and 24% from Emerging Markets. As a result, the company is exposed to consumer business trends across the globe, including consumer confidence, disposable income and purchasing trends.

The business should benefit from the positive macroeconomic forecasts for both the developed and the developing markets. In particular, by 2020 consumer spending is forecasted to increase by 8.0% in the United States and 6.4% in Europe (per Trading Economics, April 2018). Furthermore, CCL's core market is branded products, which benefit from the ongoing global premiumization, which is noted as a key megatrend through 2030 (per Euromonitor, 2017).

Notably, the annual report from 2017 is the first one since at least 2010 to not list "Uncertainty Resulting from a Sustained Global Economic Crisis" as the first risk to the business. Instead, economic uncertainty is embedded in risk #12 with the title "Fluctuation in Operating Results".

Key Competitors

Company	Size (CAD, MM)		Valuation				Margins				Growth			
	Mkt Cap	EV	EV / Sales	EV / EBITDA	EV / EBIT	P / E	Gross	EBITDA	EBIT	Net	Sales	EBITDA	EBIT	Net Income
CCL Industries	**11,072**	**12,840**	**2.70x**	**13.4x**	**18.3x**	**23.6x**	**30.2%**	**20.2%**	**14.7%**	**10.0%**	**19.6%**	**21.0%**	**18.8%**	**36.7%**
Avery Dennison	**11,988**	**13,955**	**1.64x**	**12.5x**	**15.7x**	**21.1x**	**27.4%**	**13.1%**	**10.4%**	**6.8%**	**8.7%**	**11.0%**	**14.5%**	**23.6%**
Crown	8,365	16,122	1.44x	9.1x	11.1x	12.0x	20.1%	15.8%	13.0%	6.3%	5.0%	3.8%	4.6%	0.0%
Owens-Illinois	4,210	11,360	1.28x	6.6x	10.5x	7.6x	19.4%	19.5%	12.2%	6.4%	2.5%	4.9%	6.8%	16.2%
Silgan	3,994	7,547	1.43x	10.3x	15.1x	17.0x	18.3%	13.8%	9.5%	4.5%	13.2%	21.2%	21.2%	19.8%
Ball	17,755	26,060	1.86x	11.6x	16.7x	29.8x	20.6%	16.0%	11.1%	6.6%	20.5%	28.7%	25.0%	29.3%
Bemis Co	5,081	7,028	1.35x	9.9x	14.2x	18.1x	21.5%	13.7%	9.5%	5.4%	1.0%	-7.9%	-12.6%	-7.0%
Toyo Seikan	4,416	4,850	0.53x	5.1x	13.2x	-	-	10.3%	4.0%	-2.7%	1.7%	-	-12.9%	-
Mean	**8,360**	**12,470**	**1.53x**	**9.8x**	**14.4x**	**18.5x**	**22.5%**	**15.3%**	**10.5%**	**5.4%**	**9.0%**	**11.8%**	**8.2%**	**17.0%**
Median	**6,723**	**12,100**	**1.43x**	**10.1x**	**14.7x**	**18.1x**	**20.6%**	**14.8%**	**10.8%**	**6.3%**	**6.8%**	**11.0%**	**10.6%**	**19.8%**

Due to its unique positioning, it is challenging to find comparable businesses to CCL Industries. Most competitors to CCL Industries are small businesses.

The closest competitor is **Avery Dennison**, a labeling and packaging company of a similar size, headquartered in California. While Avery is trading cheaper than CCL, its margins and growth rates have also been less attractive.

The other listed public competitors are primarily in the packaging business. As such, their financial performance is not truly comparable to CCL.

Financial Leverage

Fiscal Year	Principal Due	% Total	Comments
2018	230.6	10%	
2019	462.5	20%	Innovia acquisition financing
2020 - 2022	1,017.3	44%	
2026	621.0	27%	3.25% Intr rate
Total Debt	**2,331.4**	**100%**	**Average rate of 2.9%**
Net Debt	**1,773.9**		
Net Debt to EBITDA	**1.85**		
Unused Credit Facility	510.0		

While CCL currently has CAD $2.3 bn of debt (1.85x Net Debt to EBITDA), its obligations are spread out over the next 5 years, average a finance rate of just 2.9%, and remain significantly below the company's comfort level of 3.5x Net Debt to EBITDA.

CCL incurred ~ $700 million of additional financing in 2017, principally due to the Innovia acquisition, increasing its Net Debt to EBITDA ratio from 1.28 to 1.85. Even at that elevated level, the company is well within its pre-defined range of acceptable leverage, set by management based on the dynamics within the specialty packaging industry in risks of increased debt.

Furthermore, as a result of a larger proportion of lower-cost variable rate, the average interest rate on debt marginally decreased from 3.0% to 2.9%, compared to last year. In addition, CCL has a $510 unused credit facility to address any short-term funding needs.

Capital Allocation

CCL is led by an experienced management team with excellent reputation within the industry.

Geoffrey Martin assumed the role of **CEO** in 2008, after joining the company in 2001. He is CCL's second largest insider shareholder, owning 0.3% of the stock and has not made any recent trades.

Donald Lang was appointed as the **Executive Chairman** in 2009. He has not made any recent trades with CCL stock.

The **Board of Directors** is a diverse set of accomplished professionals, with 6 of the 8 members having held top-level positions at major companies in related businesses. The board includes 3 veteran members of 10+ years serving as a CCL Director, as well as 5 members with 2 to 4 years in the role.

Geoffrey T. Martin
President and
Chief Executive Officer

Donald G. Lang
Executive Chairman

The only reported **insider trading** as of recently belongs to 4 of the Board Members, all of whom have purchased additional shares.

The management team has an excellent track record of capital allocation. From 2012 to 2017, CCL has spent CAD $2.8 bn on 24 acquisitions of different size at attractive multiples of 4.0 - 7.5x EBITDA multiples, all funded out of cash flow or through limited debt financing (per estimates by Cormark Securities). These acquisitions have fueled business growth, without diluting the existing shareholders. Furthermore, the capital allocation has led to continuously increasing ROE and Reinvestment Rate over the last 5 years, based on a DuPont analysis.

	Dec '13	Dec '14	Dec '15	Dec '16	Dec '17
Asset Turnover (Revenue / Total Assets)	**0.93**	**1.03**	**0.98**	**0.96**	**0.88**
x Pre-Tax Margin (EBIT / Rev)	11.6%	13.0%	14.6%	14.0%	14.4%
x (1 - Effective Tax Rate)	68.8%	70.8%	70.7%	74.7%	74.7%
= Return on Assets	**7.4%**	**9.5%**	**10.1%**	**10.0%**	**9.5%**
x Leverage Factor (Total Assets / Shr Equity)	2.13	2.25	2.18	2.43	2.75
= Return on Equity	**15.8%**	**21.3%**	**22.1%**	**24.4%**	**26.0%**
x Earnings Retention	0.78	0.83	0.82	0.81	0.83
= Reinvestment Rate	**12.3%**	**17.6%**	**18.2%**	**19.7%**	**21.6%**

The integration risk of Innovia is overstated, considering CCL's acquisition history and decentralized operations.

The company is built upon integrating **tuck-in acquisitions** into its platform and capitalizing on local market insights, cost cutting and cross selling opportunities. After the acquisition, the regional businesses continue to largely operate independently, while reporting to their respective CCL division. Thus, CCL has demonstrated the competitive advantages of consolidating quality small businesses in its fragmented industry.

As the largest acquisition in CCL's history (CAD $1.46 bn or 31% of 2017 sales), **Innovia** presents a different type of integration risk. CCL executed a comparable acquisition in 2013 with the purchase of **Avery** ($0.63 bn or 33% of 2013 sales). The transaction was significantly accretive to earnings and presented an excellent case for successful business integration.

Another precedent was the acquisition of **Checkpoint** in 2016 ($0.68 bn or 17% of 2016 sales). CCL admits that the integration process proved more challenging than initially expected, due to the size, geographic scope and complexity of Checkpoint's operations. While the last stages of this process are still in progress, the Checkpoint transaction provides valuable training for merging a sizable business within the existing operations, which further decreases the integration risk of the Innovia acquisition.

Valuation

CAD, mm	2013	2014	2015	2016	2017	2018P	2019P	2020P	2021P	2022P	2013-'17	2017-'22P
				<--- Actuals		Projections --->					CAGR / *Average*	
Revenue	**1,889**	**2,586**	**3,039**	**3,975**	**4,756**	**5,163**	**5,657**	**6,252**	**6,951**	**7,766**	**29.4%**	**10.3%**
Gross Profit Margin	*25.2%*	*26.8%*	*28.3%*	*29.4%*	*30.2%*	*30.5%*	*30.8%*	*31.0%*	*31.3%*	*31.5%*	*28.0%*	*31.0%*
EBITDA	**339**	**482**	**608**	**759**	**944**	**1,097**	**1,218**	**1,346**	**1,500**	**1,676**	**30.0%**	**12.2%**
EBIT	**219**	**335**	**444**	**555**	**685**	**813**	**906**	**1,002**	**1,117**	**1,249**	**35.1%**	**12.8%**
Operating Margin	*11.6%*	*13.0%*	*14.6%*	*14.0%*	*14.4%*	*15.7%*	*16.0%*	*16.0%*	*16.1%*	*16.1%*	*13.5%*	*16.0%*
Net Income	**104**	**217**	**295**	**347**	**474**	**556**	**628**	**702**	**790**	**891**	**37.2%**	**13.5%**
Net Profit Margin	*5.5%*	*8.4%*	*9.7%*	*8.7%*	*10.0%*	*10.8%*	*11.1%*	*11.2%*	*11.4%*	*11.5%*	*8.5%*	*11.2%*
NOPAT	**151**	**237**	**314**	**415**	**512**	**626**	**698**	**772**	**860**	**962**	**35.9%**	**13.4%**
Eff. Tax Rate	*31.2%*	*29.2%*	*29.3%*	*25.3%*	*25.3%*	*23.0%*	*23.0%*	*23.0%*	*23.0%*	*23.0%*	*28.0%*	*23.0%*
Plus: D&A	120	146	164	204	259	284	311	344	382	427	20.4%	10.5%
Less: CapEx	-116	-154	-172	-235	-286	-310	-339	-375	-417	-466	25.0%	10.3%
Free Cash Flow	**155**	**230**	**306**	**384**	**485**	**600**	**670**	**741**	**826**	**923**	**32.3%**	**13.7%**
FCF Margin	*8.2%*	*8.9%*	*10.1%*	*9.7%*	*10.2%*	*11.6%*	*11.8%*	*11.8%*	*11.9%*	*11.9%*	*9.4%*	*11.8%*

Share Price as of 05/01/18	**63.2**
Assumed Risk-Free Rate	6.0%
Trading Multiples 2022	
EV / EBITDA (Assumed)	14.0x
EV / EBIT (Implied)	18.8x
P / E (Implied)	22.5x
NPV (FCF)	3,128
PV (Terminal Value)	17,535
Enterprise Value	**20,663**
Plus: Net cash	(573)
Equity Value	**20,090**
Equity Value per Share	**113.7**
Annual Return (over RFR)	**12.4%**

Sensitivity to Assumed Exit Multiple					
EV / EBITDA (2022)	**10.0x**	**12.0x**	**14.0x**	**16.0x**	**18.0x**
EV / EBIT (Implied)	13.4x	16.1x	18.8x	21.5x	24.2x
P / E (Implied)	16.9x	19.7x	22.5x	25.3x	28.2x
Share Value	**85.3**	**99.5**	**113.7**	**127.9**	**142.0**
Annual Return (over RFR)	***6.2%***	***9.5%***	***12.4%***	***15.1%***	***17.6%***

Historical Multiples	2013	2014	2015	2016	2017
EV / EBITDA	9.5x	10.0x	13.1x	13.6x	12.8x
EV / EBIT	14.8x	14.3x	17.9x	18.6x	17.6x
P / E	26.1x	20.0x	26.4x	26.7x	21.5x

Taking into account the **5-year holding period**, the above valuation projects CCL's financial performance during that period and assumes a trading multiple slightly above the market valuation in 2016. After discounting at the assumed risk-free rate of 6.0%, the **estimated equity value per share is CAD $113.7 with an implied annual return of 12.4%**. After sensitizing the result based on the exit multiple, the expected annual return ranges from 6.2% to 17.6%, over the risk-free rate of 6.0%. At this valuation, a long position could be highly profitable.

Key Risks

- **The Canadian Dollar strengthens, providing a headwind to CCL's sales, 97% of which are outside Canada.** *Mitigant:* On average, the Canadian Dollar has historically reverted to its average, which is reflected in the stock price over a longer holding period. Furthermore, after sales were significantly boosted from a weak currency in 2014 and 2015 (5.8% and 7.3%), performance has largely normalized with a currency impact at +/- 1.5% over the last two years.

- **CCL is not able to sustain its acquisitions-fueled growth rate of the last 5 years and investors pull back.** *Mitigant:* The stock is included in the S&P/TSX 60 index, which includes 60 large companies listed on the Toronto Stock Exchange, suggesting a certain level of systematic investment into the business. The stock was added to the index in June 2017. Current valuation also implies that CCL is undervalued.

- **The Checkpoint business suffers continued significant losses due to its exposure to the retail industry.** *Mitigant:* Checkpoint was purchased at a time when its stock was particularly cheap for a very attractive price. Furthermore, the business is a market leader in retail inventory tracking, with solutions that could evolve into a next-generation smart label technology.

- **CCL loses the business of key customers – the top 2 customers account for ~8.4% of sales, top 5 - 16.5%.** *Mitigant:* While the revenue stream is somewhat concentrated into the largest accounts, this is also a function of servicing blue-chip companies. Finding a label manufacturer that can substitute CCL at scale is a challenge, given its unique positioning. Furthermore, the company is known for maintaining strong relationships with its customers and offering a high-quality product.

- **Environmental, health and safety requirements restrict CCL's ability to conduct its business operations**. *Mitigant:* While this risk is inherent to the manufacturing industry, CCL is arguably better positioned than most competitors. Management regularly points out the environmental and social standards the company pursues and innovation in this regard has been noted as one of its priorities. In the event of unexpected regulatory measures, CCL would likely adapt faster than its competitors and expand market share.